



# SONUS NETWORKS INC (SONS)

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## 10-K

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Filed on 03/28/2002 - Period: 12/31/2001  
File Number 000-30229



Our common stock has been quoted on the Nasdaq National Market under the symbol "SONS" since May 25, 2000. Prior to that time, there was no public market for the common stock.

On October 6, 2000, Sonus effected a three-for-one stock split in the form of a stock dividend to each stockholder of record. All stock information has been retroactively adjusted to reflect the stock split.

In May 2000, Sonus completed its IPO of 17,250,000 shares of common stock, which includes the exercise of the underwriters' over-allotment option of 2,250,000 shares, at \$7.67 per share. The IPO generated net proceeds of \$121,705,000, after deducting the underwriting discount and commissions and offering expenses of \$10,545,000.

The following table sets forth, for the time periods indicated, the high and low sales prices of the common stock as reported on the Nasdaq National Market.

	HIGH	LOW
	-----	-----
FISCAL 2001:		
First quarter.....	\$46.50	\$16.25
Second quarter.....	33.80	12.00
Third quarter.....	25.00	2.26
Fourth quarter.....	8.37	2.44
FISCAL 2000:		
Second quarter (since May 25, 2000).....	56.65	10.67
Third quarter.....	93.67	38.50
Fourth quarter.....	49.00	18.50

We have never declared or paid cash dividends and have no present intention to pay cash dividends in the foreseeable future. Further, our bank agreement prohibits us from declaring any cash dividends. At January 9, 2002, there were approximately 960 holders of record of our common stock.

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#### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The following selected consolidated financial data of Sonus should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes to those statements included elsewhere in this report.

YEAR ENDED DECEMBER 31,				PERIOD FROM INCEPTION (AUGUST 7, 1997) TO DECEMBER 31,
2001	2000	1999	1998	1997
				-----
				(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

## CONSOLIDATED STATEMENT OF OPERATIONS DATA:

Revenues.....	\$ 173,199	\$ 51,770	\$ --	\$ --	\$ --
Cost of revenues (1).....	75,698	27,848	1,861	--	--
	-----	-----	-----	-----	-----
Gross profit (loss).....	97,501	23,922	(1,861)	--	--
Operating expenses:					
Research and development (1).....	65,004	26,430	10,780	5,824	299
Sales and marketing (1).....	42,267	21,569	5,606	426	--
General and administrative (1).....	13,068	5,477	1,723	919	187
Stock-based compensation.....	75,500	26,729	4,404	59	--
Amortization of goodwill and purchased intangibles.....	107,759	--	--	--	--
Write-off of goodwill and purchased intangibles.....	374,735	--	--	--	--
Restructuring charges.....	25,807	--	--	--	--
In-process research and development.....	43,800	--	--	--	--
	-----	-----	-----	-----	-----
Total operating expenses.....	747,940	80,205	22,513	7,228	486
	-----	-----	-----	-----	-----
Loss from operations.....	(650,439)	(56,283)	(24,374)	(7,228)	(486)
Interest income (expense), net.....	5,007	6,245	487	314	25
	-----	-----	-----	-----	-----
Net loss.....	(645,432)	(50,038)	(23,887)	(6,914)	(461)
Beneficial conversion feature of Series C preferred stock.....	--	--	(2,500)	--	--
	-----	-----	-----	-----	-----
Net loss applicable to common stockholders.....	\$(645,432)	\$(50,038)	\$(26,387)	\$(6,914)	\$(461)
	=====	=====	=====	=====	=====
Net loss per share (2):					
Basic and diluted.....	\$ (3.74)	\$ (0.52)	\$ (1.84)	\$ (1.42)	\$ --
Pro forma basic and diluted.....		(0.37)	(0.25)		
Shares used in computing net loss per share (2):					
Basic and diluted.....	172,382	95,877	14,324	4,858	--
Pro forma basic and diluted.....		135,057	96,188		

## DECEMBER 31,

2001	2000	1999	1998	1997
-----	-----	-----	-----	-----
(IN THOUSANDS)				

## CONSOLIDATED BALANCE SHEET DATA:

Cash, cash equivalents and marketable securities.....	\$ 125,067	\$142,065	\$ 23,566	\$16,501	\$6,606
Working capital.....	97,023	135,597	19,604	15,321	6,308
Total assets.....	184,884	194,835	30,782	18,416	6,987
Long-term obligations, less current portion.....	12,698	--	3,402	1,220	6
Convertible subordinated notes.....	10,000	--	--	--	--
Redeemable convertible preferred stock.....	--	--	46,109	22,951	7,100
Total stockholders' equity (deficit).....	102,885	150,706	(25,199)	(7,097)	(447)

(FOOTNOTES ON FOLLOWING PAGE)

\$585 at December 31, 2001 and 2000, respectively.....	689	836
	-----	-----
	\$184,884	\$194,835
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable.....	\$ 8,630	\$ 13,439
Accrued expenses.....	27,671	16,239
Accrued restructuring expenses.....	8,596	--
Deferred revenue.....	13,349	14,451
Current portion of long-term obligations.....	1,055	--
	-----	-----
Total current liabilities.....	59,301	44,129
LONG-TERM OBLIGATIONS, less current portion.....	12,698	--
CONVERTIBLE SUBORDINATED NOTES.....	10,000	--
COMMITMENTS AND CONTINGENCIES (Note 11).....		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized, none issued and outstanding.....	--	--
Common stock, \$0.001 par value; 600,000,000 shares authorized, 205,181,085 and 184,244,474 shares issued and 204,167,335 and 183,471,974 shares outstanding at December 31, 2001 and 2000, respectively.....	205	184
Capital in excess of par value.....	860,883	266,488
Accumulated deficit.....	(729,398)	(83,966)
Stock subscriptions receivable.....	--	(238)
Deferred compensation.....	(28,721)	(31,697)
Treasury stock, at cost; 1,013,750 and 772,500 common shares at December 31, 2001 and 2000, respectively.....	(84)	(65)
	-----	-----
Total stockholders' equity.....	102,885	150,706
	-----	-----
	\$184,884	\$194,835
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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SONUS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
REVENUES.....	\$ 173,199	\$ 51,770	\$ --

Cost of revenues (1).....	75,698	27,848	1,861
	-----	-----	-----
GROSS PROFIT (LOSS).....	97,501	23,922	(1,861)
OPERATING EXPENSES:			
Research and development (1).....	65,004	26,430	10,780
Sales and marketing (1).....	42,267	21,569	5,606
General and administrative (1).....	13,068	5,477	1,723
Stock-based compensation.....	75,500	26,729	4,404
Amortization of goodwill and purchased intangibles.....	107,759	--	--
Write-off of goodwill and purchased intangibles.....	374,735	--	--
Restructuring charges.....	25,807	--	--
In-process research and development.....	43,800	--	--
	-----	-----	-----
Total operating expenses.....	747,940	80,205	22,513
	-----	-----	-----
LOSS FROM OPERATIONS.....	(650,439)	(56,283)	(24,374)
Interest expense.....	(567)	(209)	(224)
Interest income.....	5,574	6,454	711
	-----	-----	-----
NET LOSS.....	(645,432)	(50,038)	(23,887)
Beneficial conversion feature of Series C preferred stock...	--	--	(2,500)
	-----	-----	-----
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS.....	\$ (645,432)	\$ (50,038)	\$ (26,387)
	=====	=====	=====
NET LOSS PER SHARE (NOTE 1 (O)):			
Basic and diluted.....	\$ (3.74)	\$ (0.52)	\$ (1.84)
	=====	=====	=====
Pro forma basic and diluted.....		\$ (0.37)	\$ (0.25)
		=====	=====
SHARES USED IN COMPUTING NET LOSS PER SHARE (NOTE 1 (O)):			
Basic and diluted.....	172,382	95,877	14,324
	=====	=====	=====
Pro forma basic and diluted.....		135,057	96,188
		=====	=====
-----			
(1) Excludes non-cash, stock-based compensation expense as follows:			
Cost of revenues.....	\$ 1,328	\$ 404	\$ 92
Research and development.....	43,553	11,428	1,537
Sales and marketing.....	18,300	12,051	2,104
General and administrative.....	12,319	2,846	671
	-----	-----	-----
	\$ 75,500	\$ 26,729	\$ 4,404
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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SONUS NETWORKS, INC.

Issuance of common stock for subscriptions receivable.....	\$ --	\$ --	\$110
	=====	=====	=====
Conversion of redeemable convertible preferred stock into common stock.....	\$ --	\$70,859	\$ --
	=====	=====	=====

## (16) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table presents our quarterly operating results for the years ended December 31, 2001 and 2000. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited consolidated quarterly results when read in conjunction with our audited consolidated financial statements and related notes. These operating results are not necessarily indicative of the results of any future period.

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## SONUS NETWORKS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	THREE MONTHS ENDED							
	MAR. 31, 2001	JUNE 30, 2001	SEPT. 30, 2001	DEC. 31, 2001	MAR. 31, 2000	JUNE 30, 2000	SEPT. 30, 2000	DEC. 31, 2000
	(IN THOUSANDS)							
	(UNAUDITED)							
CONSOLIDATED STATEMENT OF OPERATIONS DATA:								
REVENUES.....	\$ 41,499	\$ 52,551	\$ 40,286	\$ 38,863	\$ 1,093	\$ 6,511	\$ 15,568	\$28,598
Cost of revenues.....	18,011	22,160	18,129	17,398	1,462	4,555	8,830	13,001
GROSS PROFIT (LOSS).....	23,488	30,391	22,157	21,465	(369)	1,956	6,738	15,597
OPERATING EXPENSES:								
Research and development.....	13,919	16,697	18,746	15,642	4,844	6,355	7,032	8,199
Sales and marketing.....	8,488	10,615	12,660	10,504	3,358	4,381	5,833	7,997
General and administrative.....	2,663	3,279	3,330	3,796	713	1,277	1,763	1,724
Stock-based compensation.....	15,423	13,847	39,069	7,161	6,979	6,386	6,982	6,382
Amortization of goodwill and purchased intangibles.....	27,207	38,704	41,368	480	--	--	--	--
Write-off of goodwill and purchased intangibles.....	--	--	376,719	(1,984)	--	--	--	--
Restructuring charges.....	--	--	25,807	--	--	--	--	--
In-process research and development.....	40,000	--	3,800	--	--	--	--	--
Total operating expenses.....	107,700	83,142	521,499	35,599	15,894	18,399	21,610	24,302
LOSS FROM OPERATIONS.....	(84,212)	(52,751)	(499,342)	(14,134)	(16,263)	(16,443)	(14,872)	(8,705)
Interest income (expense), net...	1,733	1,360	1,181	733	228	1,089	2,495	2,433

expenses. We believe that our recent restructuring actions will reduce sales and marketing expenses in fiscal 2002 from the fiscal 2001 level.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses consist primarily of salaries and related expenses for executive and administrative personnel, recruiting expenses, provision for bad debts and professional fees. We believe that our recent restructuring actions will reduce general and administrative expenses in fiscal 2002 from the fiscal 2001 level.

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**STOCK-BASED COMPENSATION EXPENSES.** Stock-based compensation expenses include the amortization of stock compensation charges resulting from the granting of stock options, including those TTI stock options assumed by Sonus, stock awards to TTI employees under the 2000 Retention Plan, the sales of restricted common stock to employees and compensation expense associated with the grant of stock options and issuance of restricted stock to non-employees. See Note 13 (i) to our consolidated financial statements. Deferred compensation related to the granting of stock options and sales of restricted common stock to employees, including those TTI stock options assumed by Sonus, are being amortized over the vesting periods of four to five years. The deferred compensation associated with the 2000 Retention Plan awarded to TTI employees will be expensed over the approximate two-year vesting period of the retention shares. These amounts have been adjusted for changes in the fair value of Sonus common stock on the date the related milestone release conditions were earned. Upon the termination of an employee, the remaining value of shares held under the 2000 Retention Plan, to which such employee is entitled, if any, will be expensed. The compensation expense associated with non-employees is recorded at the time services are provided. As of December 31, 2001, we expect to record up to approximately \$21.0 million, \$6.5 million and \$1.2 million in employee stock-based compensation expense in the years ending December 31, 2002, 2003 and 2004.

**BENEFICIAL CONVERSION OF PREFERRED STOCK.** In fiscal 1999, we recorded a charge to accumulated deficit of \$2.5 million, representing the beneficial conversion feature of our Series C redeemable convertible preferred stock that was sold in the fourth quarter of 1999. This charge was accounted for as a dividend to preferred stockholders and, as a result, increased the net loss available to common stockholders and the related net loss per share.

YEARS ENDED DECEMBER 31, 2001 AND 2000

**REVENUES.** Revenues were \$173.2 million for fiscal 2001, an increase of \$121.4 million, or 235% from \$51.8 million in fiscal 2000. The increase in revenues was the result of a significant increase in the sale of voice infrastructure products. For the years ended December 31, 2001 and 2000, four and three customers each contributed more than 10% of our revenues, representing an aggregate of 67% and 70% of total revenues. International revenues, primarily to Asia and Europe, were 18% and 11% of revenues for the years ended December 31, 2001 and 2000.

**GROSS PROFIT.** Gross profit was \$97.5 million, or 56% of revenues, for fiscal 2001, compared with \$23.9 million, or 46% of revenues, in fiscal 2000. The increase in gross profit as a percentage of revenues is primarily the result of improved manufacturing efficiencies due to increased volume, a favorable product mix and a reduction in material costs.

**RESEARCH AND DEVELOPMENT EXPENSES.** Research and development expenses were \$65.0 million for fiscal 2001, an increase of \$38.6 million, or 146%, from \$26.4 million in fiscal 2000. The increase reflects costs primarily associated